A Better Way to Help the Unemployed

Congress Should Extend Benefits and Fix the Unemployment Insurance System

Heather Boushey February 9, 2010

Getting people back to work is one of the most important challenges facing our economy and our policymakers. As we outlined in "Meeting the Jobs Challenge," the key focus of our jobs plan should be:

- Aid to the unemployed, which boasts the biggest bang for the buck in terms of spurring economic demand
- Aid to state and local governments to help them avoid layoffs and maintain services
- Tax cuts for most families, which help to boost spending
- Investments in infrastructure, which are still ramping up and coming on line, as these projects take longer to get up and running
- Investments in a green economy, which creates jobs and paves the way for long-term economic sustainability
- Assistance for those who have been hit hardest by the Great Recession

Ensuring that the unemployed receive benefits while they job search helps workers avoid hardships and provides one of the "biggest bangs for the buck" in terms of economic stimulus to pave the way for a more robust economic recovery. In times of high unemployment, benefits flow to the unemployed, immediately boosting demand above where it would have otherwise been in the areas hardest hit because people in these positions, by force of circumstance, spend what they receive.

The unemployment insurance system was established by the 1935 Social Security Act as a joint federal-state program. The states each administer their own unemployment insurance programs, but the federal government must act to extend benefits to the long-term unemployed—workers who have been out of work and searching for a job for at least six months—which is currently a record high 38 percent of all unemployed workers. Yet benefits for the long-term unemployed will expire this month unless Congress acts.

And there are two other problems with the unemployment system that Congress should also address as it looks to extend benefits: insolvency of the UI Trust Funds and broken automatic triggers.

Fund the UI Trust Funds with TARP dollars

Policymakers must address the insolvency of the UI Trust Funds. The states are supposed to pay for higher benefits during hard economic times by setting aside funds during good times into their "UI Trust Fund." Then when unemployment rises and more people claim benefits, there are funds available without having to pro-cyclically raise taxes during a recession. Yet the UI Trust Funds are insolvent in the majority of states: Twenty-seven states have loans from the federal government to cover gaps in their UI Trust Funds, for a total of over $30 billion dollars owed nationwide (See Table 1). Fixing this could vastly improve the UI system and officially recognize that the UI system is currently operating as a federal, not a state, system since the federal government is keeping it running.

These loans pose a number of problems for policymakers concerned about the effectiveness of the overall unemployment insurance system and its ability to be a countercyclical policy tool. First, states with loans will need to find a way to pay the federal government back. Second, while states are paying back these loans, they are not preparing for the next recession, and many will choose to reduce already-too-low benefits as a means of addressing the gap.

A December 2009 survey from the National Association of State Workforce Agencies asked how states planned to deal with these loans.[1] All of the eight states that have already passed legislation to address the issue said they plan to increase the taxable wage base, and three said they are also planning on reducing benefits. A total of 35 states reported that they will increase taxes on employers from 2009-2010 to address UI Trust Fund solvency. This is exactly the wrong kind of policy for a recession.

There is a way forward. The federal government could fully fund the Extended Benefits program. To start everyone off on a clean slate, we could use funds from the Troubled Asset Relief Program to buy the UI Trust Funds, and from there on the federal government would retain responsibility for those funds. The 27 states that have loans would no longer have them, relieving them of that debt; on the other hand, states that have solvent UI Trust Funds would be able to keep those funds and use them to support their state budgets in other ways.

There is little worry of moral hazard moving forward since this is a one-time payment. And because the funds are from the TARP program, they would not displace other spending. If the federal government took over the UI Trust Funds moving forward, they would no longer have to rely on states to adequately fund them. This would help the national

economy in future recessions as benefits would flow out more quickly to localities with higher unemployment and longer unemployment durations.

This does bring up issues of equity. Federal programs—or programs funded by federal dollars—should not treat workers unequally. The federal government sets out a basic set of criteria for the unemployment compensation programs, but the states have a great deal of wiggle room to determine eligibility and set the level of taxes and benefits for their program. Because of this, there is currently wide disparity in the unemployment taxes and benefits across states, even though the program is effectively supported by federal dollars. For example, unemployment benefits in Mississippi cover an average of 30.8 percent of pre-unemployment earnings, compared to Wyoming, where benefits cover 43.8 percent. Receipt of benefits also has similar wide disparities. If this were an entirely state program, such disparities would be reasonable, but because it is a federally backed program this is a serious problem.

Create effective "off triggers" for the extended benefits program

Jeff Wenger and I lay out a full proposal for this in an upcoming CAP report, "Triggers that Work," but the crux of the issue is that not every state will come out of the recession at the same time, so benefits for the long-term unemployed should not expire at the same time.[2]

The unemployment system is designed to provide a temporary income bridge as a worker searches for his or her next job. As such, the system normally provides benefits for a maximum of 26 weeks. It has long been recognized, however, that finding a job in 26 weeks may not be possible during periods of high unemployment, such as in a recession, no matter how willing and determined the worker. The program was therefore later modified to automatically extend unemployment benefits to the long-term unemployed—those who lost their job through no fault of their own and have been unable to find a new job for at least six months—if a state develops high unemployment. Yet the "trigger" system does not work as it now exists. Few states activate the trigger quickly or at all during labor market downturns, and they only extend benefits when Congress acts separately to extend benefits.

Because the trigger system is broken, Congress has had to act repeatedly over the course of the current recession to extend the duration of unemployment benefits. There are two ways it does this: the extended benefit program and the extended unemployment compensation program. The EB program extends weeks of benefits in high-unemployment states based on the state-level triggers. The EUC program is the program that Congress implements when it extends the duration of unemployment benefits, typically for the long-term unemployed in every state. The EUC is a temporary extension and typically expires within a year or six months of implementation, while the EB program is based on a permanent trigger system.

TABLE 1

Outstanding loans from the Federal Unemployment Account

Balances as of January 27, 2010 are:	
Alabama	$185,362,651.18
Arkansas	$261,771,064.08
California	$6,887,725,201.61
Colorado	$25,701,000.00
Connecticut	$259,174,065.91
Florida	$1,162,800,000.00
Georgia	$173,000,000.00
Idaho	$137,211,625.22
Illinois	$1,450,305,273.95
Indiana	$1,598,416,349.78
Kentucky	$633,594,674.85
Michigan	$3,368,182,333.32
Minnesota	$400,631,901.41
Missouri	$543,125,423.31
Nevada	$201,677,402.44
New Jersey	$1,185,918,783.38
New York	$2,454,328,123.37
North Carolina	$1,778,511,281.62
Ohio	$1,894,767,799.00
Pennsylvania	$2,199,623,291.08
Rhode Island	$152,791,499.00
South Carolina	$749,628,316.00
South Dakota	$12,944,423.67
Texas	$1,580,648,795.61
Virgin Islands	$10,139,845.08
Virginia	$188,433,000.00
Wisconsin	$1,057,883,564.04
Total	**$30,554,297,688.91**

Source: U.S. Department of Labor, "UI Budget—Estimated FUTA Receipts vs. Amount Returned," available at http://workforcesecurity.doleta.gov/unemploy/budget.asp.

Congress extended the EUC program in June and November of 2008, in February 2009 as a part of the American Recovery and Reinvestment Act, and then again in December 2009.[3] But benefits expire this February and Congress must act again. As the economy comes out of recession, some states will emerge faster than others, fatigue will set in, and Congress will likely allow benefits to expire before every state's unemployment rate has come back down. This hurts those states that continue to face high unemployment.

Congress should implement an "off trigger" with the new extensions, rather than a nationwide expiration date. This trigger would turn off when a state's unemployment rate falls below an average of 6.5 percent over a three-month period or when the number of people claiming unemployment insurance falls back to it pre-recession level, defined as the level before unemployment in that state began to rise at the beginning of this recession.[4]

The share of the unemployed who are "long-term unemployed"—that is, out of work and searching for a new job for at least six months—hit a record high of 41.2 percent in January. We need to continue to make sure that unemployment benefits, and especially benefits for the long-term unemployed continue to be available. We need to address these fundamental problems with the unemployment benefits system to ensure that workers in need are able to gain access to benefits. Fixing the UI Trust Funds and the trigger mechanism will ensure that the unemployed continue to receive help as states begin to pull out of the recession and the appetite for continuing to extend benefits fades.

Endnotes

1 National Association of State Workforce Agencies, "UI Trust Fund Solvency Survey" (December 2009), available at http://www.workforceatm.org/sections/pdf/2009/NASWA%20Solvency%20Survey%20Summary%20of%20State%20Responses.pdf

2 See forthcoming paper by Jeffrey B. Wenger and Heather Boushey, "Triggers that Work" (Washington, DC: Center for American Progress).

3 "The Emergency Unemployment Compensation, or EUC08 program is a temporary, 100 percent federally financed program that provides additional weeks of unemployment benefits at the state level. The first tier of EUC08 provides up to 20 additional weeks of unemployment compensation to all qualified workers who have exhausted regular unemployment compensation. The second tier of EUC08 provides up to an additional 13 weeks of benefits in states with high unemployment. The Department of Labor tracks unemployment rates in the states, and a state is said to trigger 'on' to the EUC second tier of benefits if unemployment conditions in the state reach certain thresholds." Alison Shelton, Kathleen Romig, and Julie Whittaker, "Unemployment Insurance Provisions in the American Recovery and Reinvestment Act of 2009" (Congressional Research Service, February 27, 2009), p. 2.

4 Benefits are always extended for 13 weeks. The program is "open-ended" in that as long as the trigger is on, an unemployed worker can collect up to 13 additional weeks of benefits. Once the worker has collected 26 weeks of regular benefits and 13 weeks of extended benefits they are cut off from the program.